

CITY OF LAKELAND, TENNESSEE

**Comprehensive Annual
Financial Report**

June 30, 2004

CITY OF LAKELAND

T E N N E S S E E



COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the fiscal year ended
June 30, 2004

Prepared by:

Department of Finance and Administration

TABLE OF CONTENTS

INTRODUCTORY SECTION

Transmittal Letter	2
Organizational Chart	5
List of Elected and Appointed Officials	6

FINANCIAL SECTION

Independent Auditor's Report	8
Management's Discussion and Analysis	10
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	16
Statement of Activities	18
Fund Financial Statements:	
Balance Sheet – Governmental Funds	19
Statement of Revenues, Expenditures and Changes in Fund Balance	21
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to Statement of Activities	22
Statement of Net Assets – Enterprise Revenue Fund	23
Statement of Revenues, Expenses and Changes in Net Assets – Enterprise Revenue Fund	24
Statement of Cash Flows – Enterprise Revenue Fund	26
Balance Sheet – General Fund	28
Statement of Revenues, Expenditures and Changes in Fund Balance	29
Notes to the Financial Statements	30
Supplementary Information:	
Balance Sheet – General Fund	38
Statement of Revenues, Expenditures and Changes in Fund Balance	39
Balance Sheet – Special Revenue Fund	44
Combined Statement of Revenues, Expenditures and Changes In Fund Balance – Special Revenue Fund	45
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	46
Statistical Information:	
Schedule of Changes in Capital Assets	49
Schedule of Capital Assets – By Function and Activity	50
Schedule of Insurance Coverage	51

INTRODUCTORY SECTION



City of Lakeland

May 16, 2005

To the Mayor, Board of Commissioners and Citizens of Lakeland:

The Comprehensive Annual Financial Report (CAFR) of the City of Lakeland, Tennessee for the fiscal year ended June 30, 2004, is hereby submitted in accordance with the City of Lakeland Charter requirement for an independent audit by a certified public accounting firm. The financial statements are presented in conformity with generally accepted accounting principles (GAAP) as set forth by the Governmental Accounting Board (GASB) and have been audited in accordance with generally accepted auditing standards.

This report consists of management's representations concerning the finances of the City of Lakeland. Management assumes full responsibility for the completeness and reliability of all of the information presented in this report. Management of the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Brower, Hollomon and Associates have audited the City of Lakeland financial statements, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2004, are free of material misstatement. The independent auditor concluded, based upon the audit, that there was a reasonable (clean) basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended June 30, 2004, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of the report.

Profile of the Government

The City of Lakeland, incorporated in 1977, is located in northeast Shelby County in the Southwestern part of the State. Lakeland occupies 17.78 square miles and serves a population of 7,464. The City is empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the Board of Mayor and Commissioners.

547 - 80

8,500

The City of Lakeland's charter provides for a Commission-City Manager form of Government. Lakeland major operational activities are handled by a City Manager, who is appointed by the Board of Commissioners. Under Lakeland's form of government, the five-member Board of Commissioners, one of whom is elected as Mayor, are elected at large. The Commission's duties are to set City policy through legislation and to supervise and evaluate the management of the City by the City Manager. The Commissioner, among other things, is responsible for passing ordinances, adopting the budget and appointing committees. The Board of four Commissioners and the Mayor are elected to four-year terms by popular vote. One-half of the Board is elected every two years.

The City of Lakeland provides a range of municipal services including street and drainage construction and maintenance, solid waste collection, recreational programs, planning and zoning and administrative services. In addition, the City operates a sewer utility system.

The Shelby County School Board of Education provides educational services to students within the jurisdiction of the City of Lakeland. The County school system is part of the Shelby County Government of Shelby County. The Memphis Light, Gas, and Water Division of the City of Memphis provide electrical and natural gas distribution to the Lakeland service area. The City of Memphis also provides sewer service to a small portion of the City of Lakeland. These entities do not meet the established criteria for inclusion in the reporting entity and are not included in this report.

The City of Lakeland annually prepares a plan of services for the upcoming fiscal year and the estimated cost of providing those services. This plan is reviewed by the Board of Mayor and Commissioners and is formally adopted by the passage of a budget ordinance. Strict budgetary compliance is maintained by the automated accounting system to assure effective fiscal management and accountability. All requests for purchases are checked by the City Manager to assure that funds are available. Purchase orders and contracts are encumbered prior to release to vendors. The City Manager may transfer resources within a department as required.

Local Economy

The City of Lakeland currently has a moderate economic growth and is continuing to grow. The City currently has a population of 7,464 with a projected population of 8,500 by 2005.

The City of Lakeland purchased 100-acres on Memphis-Arlington in 2004 at a price of 916,971. In addition the City is currently in the process of signing a contract with Mayer Construction to build a fire station for the City of Lakeland. Shelby County Fire Department will staff and operate the fire station.

Long-term financial planning

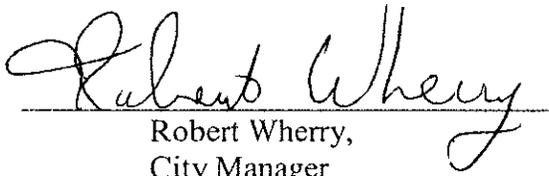
- 100-acre Town Center
- Windward Slopes Park
- Fire Station

Major initiatives

- Construction and widening of Canada Road project will start in 2004 and should be completed in 2006.
- The City of Lakeland and Shelby County have an agreement to each fund 50 percent of the cost of this project. Shelby County is administering the construction contract. The project is expected to cost the City \$1,556,508.
- A design for a Waste Water Treatment Plant and various projects for sewer and water extensions and improvements are in progress.

The preparation of this report would not have been possible without the efficient and dedicated service of the entire staff of the finance and administration department. We wish to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit also must be given to the Mayor and the Commissioners for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Lakeland's finances.

Respectfully submitted,

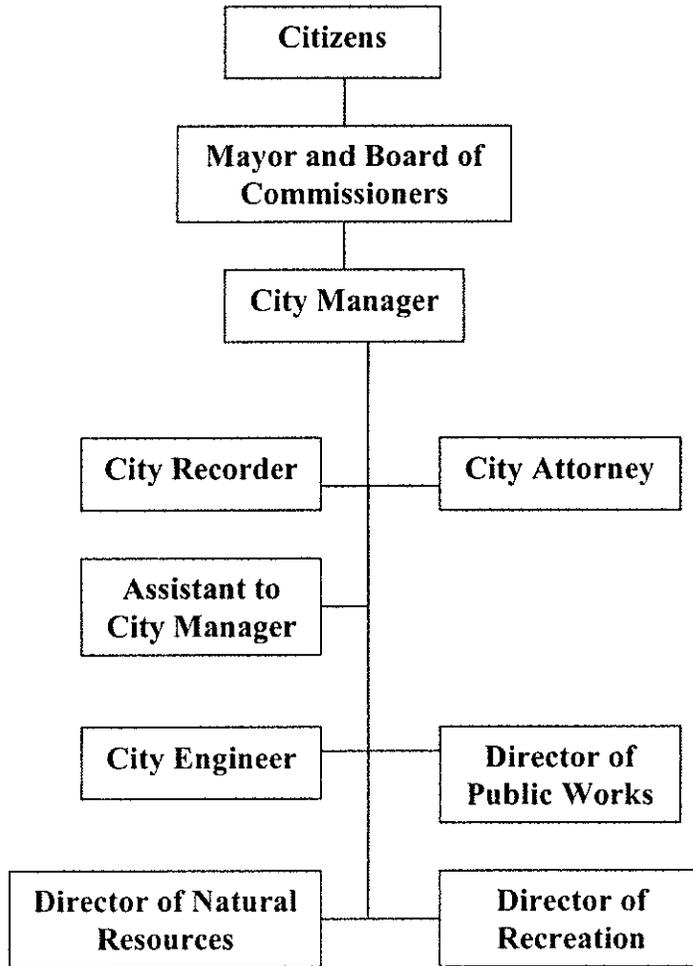

Robert Wherry,
City Manager



City of Lakeland

ORGANIZATION CHART

JUNE 30, 2004



City of Lakeland, Tennessee
List of Elected and Appointed Officials
June 30, 2004

Elected Officials

Mayor

Scott Carmichael

Commissioners

Mark Hartz, Vice Mayor
Judith Bennett, Commissioner
Gerritt Verschuur, Commissioner
Stephanie Anderson, Commissioner

Appointed Officials

City Manager	Robert Wherry
Administrative Assistant	Theresa Meyer
City Attorney	David Lakin
Director of Finance	Robert Wherry
City Recorder	Sontidra Franklin
Director of Code Enforcement	Karen Jarrett, City Engineer
Director of Public Works	Chris Masin
Director of Engineering/City Engineer	Karen Jarrett
Director of Recreation	Joy Cloud
Natural Resource Director	Eric Bridges

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

To the Honorable Scott Carmichael, Mayor
And the Board of Commissioners
City of Lakeland, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lakeland, Tennessee (the "City"), as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the City of Lakeland, Tennessee, as of June 30, 2004, and the respective changes in financial position and cash flows where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government auditing Standards*, we have also issued our report dated June 2, 2005, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide and opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis information, and the schedule of funding progress and budgetary comparison schedule-General Fund and related notes as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally, of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, supporting schedules and the statistical data are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis (with the schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*), and is also not a required part of the basic financial statements of the City. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal and state awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, supporting schedules and statistical data have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Brewer, Holloman & Associates
Memphis, Tennessee
June 2, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Lakeland, we offer readers of the City of Lakeland's financial statements this narrative overview and analysis of the financial activities of the City of Lakeland for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal and notes to the financial statements.

Financial Highlights

- The assets of the City of Lakeland exceeded its liabilities at the close of the most recent fiscal year by \$65,479,000 (net assets). All net assets of the City of Lakeland are unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- City of Lakeland's total net assets increased by \$22,080,160, including \$24,078,921 of contributions from developers.
- June 30, 2004, the City's governmental funds reported combined ending fund balances of \$2,355,765, a decrease of \$794,766, in comparison with the prior year.
- At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$2,333,620 or 66% of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Lakeland's basic financial statements. The City of Lakeland basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information to the basic financial statements themselves.

Government-wide financial statements: The government-wide financial statements are designed to provide readers with a broad overview of the City of Lakeland's finances, in a manner similar to a private-sector business.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, health, culture, welfare, and recreation, and sanitation. The business-type activities of the City include the operation of the sewer facilities.

The government-wide financial statements include only the City it self. The City operates a sewer system, which is reported as a proprietary fund in the City's financial statements.

Fund financial statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds and proprietary funds.

Governmental funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Lakeland maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund. Data from the other two governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds: The City maintains an Enterprise fund, which is one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for it sewer activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the sewer activities of the City, which is considered to be a major fund.

Fiduciary funds: Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's

own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of the City of Lakeland, assets exceeded liabilities by \$65,522,042 at the close of the most recent fiscal year.

By far the largest portion of the City of Lakeland’s net assets (94.5 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Lakeland uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Lakeland’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The City has no outstanding debt.

City of Lakeland Net Assets

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Current and other assets	\$ 2,629,563	\$ 1,267,945	\$ 3,897,508
Capital assets	<u>56,633,614</u>	<u>5,232,551</u>	<u>61,866,165</u>
Total assets	<u>59,263,177</u>	<u>6,500,496</u>	<u>65,763,673</u>
Current and other liabilities	<u>273,800</u>	<u>10,873</u>	<u>284,673</u>
Net assets:			
Invested in capital assets	56,633,614	5,232,551	61,866,165
Unrestricted	<u>2,355,763</u>	<u>1,257,072</u>	<u>3,612,835</u>
Total net asset	<u>\$ 58,989,377</u>	<u>\$ 6,489,623</u>	<u>\$ 65,479,000</u>

At June 30, 2004, the City of Lakeland is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Governmental activities: Governmental activities increased the City of Lakeland’s net assets by \$21,271,237, thereby accounting for 96 percent of the total growth in the net assets of the City of Lakeland. Key elements of this increase are as follows:

- Capital contributions accounted for \$23,546,799 of the increase. These are capital contributions from developers.

City of Lakeland Changes in Net Assets

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Revenues:			
Program revenues:			
Charges for services	\$ 366,015	\$ 222,564	\$ 588,579
Capital contributions	23,546,799	489,080	24,035,879
General Revenue:			
Taxes	1,655,664	-	1,655,664
Licenses & permits	271,022	-	271,022
Fees for services	298,262	-	298,262
Other	133,677	591,038	724,715
Total revenues	<u>26,271,439</u>	<u>1,302,682</u>	<u>27,574,121</u>
Expenses:			
General government	1,212,650	-	1,212,650
Public safety	38,396	-	38,396
Public works	3,252,450	-	3,252,450
Health, culture, welfare & recreation	184,323	-	184,323
Operating expense		536,801	536,801
Sanitation	312,383	-	312,383
Total expenses	<u>5,000,202</u>	<u>536,801</u>	<u>5,537,003</u>
Increase in net assets	21,271,237	765,881	22,037,118
Net assets beginning	3,150,529	1,627,769	4,778,298
Prior period adjustments (GASB 34)	2,588,361	-	2,588,361
Capital contributions	31,979,250	4,095,973	36,075,223
Net assets ending	<u>\$ 58,989,377</u>	<u>\$ 6,489,623</u>	<u>\$ 65,479,000</u>

Business-type activities: Business-type activities increased the City of Lakeland net assets by \$808,923 accounting for 4% of the total growth in government’s net assets. Key elements of the increase are as follows:

- Capital contributions accounted for \$489,080 of the increase. These are capital contributions from developers.

Financial Analysis of the Government's Funds

As noted earlier, the City of Lakeland uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds: The focus of the City of Lakeland's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,355,763, a decrease of \$794,766, in comparison with the prior year. All fund balance is unreserved.

Proprietary funds: The City of Lakeland's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Sewer fund at the end of the year amounted to \$6,500,496. Other factors concerning the finances have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Major differences between the original budget and the amended budget were transferred out to pay for the purchase of land in the amount of \$915,000, \$110,000 Canada Road improvements and \$124,815 for construction in process (fire station). These expenses will be paid through a loan for capital expenses.

Capital Asset and Debt Administration

Capital assets: The City's investment in capital assets for its governmental and business type activities as of June 30, 2004, amounts to \$61,866,165 (net of accumulated depreciation). The investment in capital assets includes land, building and systems, improvements, machinery and equipment, park facilities, roads, highways, bridges and construction in process. The total increase in City's investment in capital assets for the current fiscal year was 27% (a 27% increase for governmental activities and a 0% increase for business-type activities).

Major capital asset events during the current fiscal year included the following:

- Purchase of 100 acres on Memphis-Arlington for future expansion of City facilities at a cost of \$915,000. *Carroll Park 1025279th Avenue, Lakeland, Tenn. 37066*
 - Various street and road improvements at a cost of \$444,000. *219,141*
- for ...*

City of Lakeland Capital Assets

	Governmental Activities	Business-type Activities	Total
Land	\$ 4,902,420	\$ 80,682	\$ 4,983,102
Buildings	960,323	-	960,323
Machinery & equipment	784,392	-	784,392
Infrastructure	61,675,778	-	61,675,778
Collections systems		5,927,264	5,927,264
Construction in progress	124,816	-	124,816
Total	\$ 68,447,729	\$ 6,007,946	\$ 74,455,675

Economic Factors and Next Year's Budgets and Rates

Factors considered in preparing the City of Lakeland's for the 2004 fiscal year are discussed fully in the budget document and include:

- Tax revenues were expected to increase by approximately 7% due to recent economic growth.
- Other budgeted revenue and expenditures are expected to remain consistent.

All of these factors were considered in City of Lakeland's budget for the 2005 fiscal year. However, despite the fact that an economic rebound is indicated, the City adhered to its conservative budgeting policies and additional cost cutting measures.

The City of Lakeland has approved an operating budget of \$5,852,120 for fiscal year 2004. As shown in the Statement of Revenues, Expenditures and Changes in Fund Balance revenues and expenditures were less than the budgeted amount. The difference in expenditures were due to capital outlays for the purchase of land, construction of a fire station and widening of Canada Road were not all completed in the audit year. The difference in revenues was due to loan proceeds in the amount of \$3,500,000 as approved by the board of commissioners for the purchasing of land, construction of the fire station and widening of Canada Road were not received until after the year end.

Requests for Information

This financial report is designed to provide a general overview of the City of Lakeland's finances for all those with an interest in the government's finances. Question concerning any of the information provided in this report or requests for additional financial information should be addressed to City of Lakeland, Office of Finance, 10001 U.S. Highway 70, Lakeland Tennessee 38002.

BASIC FINANCIAL STATEMENTS

Statement of Net Assets - Assets
 June 30, 2004

	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	\$ 552,629	\$ 946,677	\$ 1,499,306
Investments	1,845,069	303,610	2,148,679
Receivables			
Accounts	-	17,658	17,658
Intergovernmental	221,376	-	221,376
Due from other funds	10,489	-	10,489
Property, plant and equipment (net)	<u>56,633,614</u>	<u>5,232,551</u>	<u>61,866,165</u>
 Total assets	 <u>\$ 59,263,177</u>	 <u>\$ 6,500,496</u>	 <u>\$ 65,763,673</u>

The accompanying notes are an integral part of these statements.

Statement of Net Assets - Liabilities and Fund Equity
June 30, 2003

	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-type</u>	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
Liabilities:			
Accounts payable	\$ 121,130	\$ 382	\$ 121,512
Due to/from other funds	-	10,491	10,491
Deferred compensation payable	-	-	-
Refundable deposits	152,670	-	152,670
Accrued vacation	-	-	-
	<u>273,800</u>	<u>10,873</u>	<u>284,673</u>
Total liabilities			
Net Assets:			
Contributed capital	31,979,250	4,095,973	36,075,223
Retained earnings (deficit)			-
Reserved for street aid	-		-
Unreserved	-	2,393,650	2,393,650
Unreserved, designated	-	-	-
for parks	22,143	-	22,143
Unreserved, undesignated	26,987,984	-	26,987,984
	<u>58,989,377</u>	<u>6,489,623</u>	<u>65,479,000</u>
Total net assets			
Total liabilities and net assets	<u>\$ 59,263,177</u>	<u>\$ 6,500,496</u>	<u>\$ 65,763,673</u>

The accompanying notes are an integral part of these statements.

Statement of Activities
For the Year Ended June 30, 2004

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			
	Charges For Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total	
<u>Expenses</u>						
Functions/Programs						
Primary government:						
Expenditures:						
General government	\$ 1,212,650	\$ -	\$ -	\$ (1,212,650)	\$ -	\$ (1,212,650)
Public safety	38,396	-	-	(38,396)	-	(38,396)
Public works	3,252,450	-	209,378	(3,043,072)	-	(3,043,072)
Health, culture, welfare and recreation	184,323	-	-	(184,323)	-	(184,323)
Sanitation	312,383	366,015	-	53,632	-	53,632
	<u>5,000,202</u>	<u>366,015</u>	<u>209,378</u>	<u>(4,424,809)</u>	<u>-</u>	<u>(4,424,809)</u>
Total governmental activities						
Business-type activities						
Operating expenses	<u>536,801</u>	<u>222,564</u>	<u>-</u>	<u>-</u>	<u>(314,237)</u>	<u>(314,237)</u>
Total primary government	<u>\$ 5,537,003</u>	<u>\$ 588,579</u>	<u>\$ 209,378</u>	<u>(4,424,809)</u>	<u>(314,237)</u>	<u>(4,739,046)</u>
General revenues:						
Taxes			218,343	-	218,343	
Licenses and permits			271,022	-	271,022	
Intergovernmental			1,437,321	-	1,437,321	
Fees for services			88,884	-	88,884	
Capital contribution			23,546,799	489,080	24,035,879	
Other			133,677	591,038	724,715	
			<u>25,696,046</u>	<u>1,080,118</u>	<u>26,776,164</u>	
Total general revenues						
Changes in net assets			21,271,237	765,881	22,037,118	
Net assets - beginning			3,150,529	1,627,769	4,778,298	
Prior period adjustments (GASB 34)			2,588,361	-	2,588,361	
Capital Contributions			31,979,250	4,095,973	36,075,223	
			<u>\$ 58,989,377</u>	<u>\$ 6,489,623</u>	<u>\$ 65,479,000</u>	
Net assets - ending						

Balance Sheet - Assets
Government Funds
June 30, 2004

	<u>General</u>	<u>Special Revenue</u>	<u>Total Government Funds</u>
Assets:			
Cash and cash equivalents	\$ 552,629	\$ -	\$ 552,629
Investments	1,845,069	-	1,845,069
Receivables			
Accounts		-	-
Intergovernmental	221,376	-	221,376
Due from other funds	175,104	-	175,104
Property, plant and equipment (net)	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	2,794,178	-	2,794,178
Other Debits-			
Amount to be provided for compensated absences	<u>-</u>	<u>-</u>	<u>-</u>
Total assets and other debits	<u>\$ 2,794,178</u>	<u>\$ -</u>	<u>\$ 2,794,178</u>
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and , therefore, are not reported in the funds.			<u>56,468,999</u>
Net assets of governmental activities			<u>\$ 59,263,177</u>

The accompanying notes are an integral part of these statements.

**Balance Sheet - Liabilities and Fund Equity -
Government Funds
June 30, 2004**

	<u>General</u>	<u>Special Revenue</u>	<u>Total Government Funds</u>
Liabilities:			
Accounts payable	\$ 121,132	\$ -	\$ 121,132
Due to/from other funds		164,643	164,643
Deferred compensation payable	-	-	-
Refundable deposits	152,670	-	152,670
Accrued vacation	-	-	-
	<u>273,802</u>	<u>164,643</u>	<u>438,445</u>
Total liabilities			
Fund equity:			
Investment in general			
fixed assets	-	-	-
Contributed capital	-	-	-
Retained earnings (deficit)			
Reserved for street aid	-	(208,104)	(208,104)
Unreserved	-	-	-
Unreserved, designated	-	-	-
for parks	22,143	-	22,143
Unreserved, undesignated	2,498,233	43,461	2,541,694
	<u>2,520,376</u>	<u>(164,643)</u>	<u>2,355,733</u>
Total fund equity			
	<u>2,520,376</u>	<u>(164,643)</u>	<u>2,355,733</u>
Total liabilities and fund equity	<u>\$ 2,794,178</u>	<u>\$ -</u>	<u>\$ 2,794,178</u>

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

56,468,999

Net assets of governmental activities

\$ 59,263,177

The accompanying notes are an integral part of these statements.

Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2004

	<u>General</u>	<u>Special Revenue</u>	<u>Total Government Funds</u>	<u>Budget</u>	<u>(Favorable) Unfavorable</u>
Revenues:					
Taxes	\$ 218,343	\$ -	\$ 218,343		
Licenses and permits	271,022	-	271,022		
Intergovernmental	1,437,321	-	1,437,321		
Fees for services	88,884	575,393	664,277		
Other	<u>133,677</u>	<u>-</u>	<u>133,677</u>		
 Total revenues	 <u>2,149,247</u>	 <u>575,393</u>	 <u>2,724,640</u>	 <u>5,852,120</u>	 <u>(3,127,480)</u>
Expenditures:					
General government	1,161,516	-	1,161,516		
Public safety	38,396	-	38,396		
Public works	136,643	756,619	893,262		
Health, culture, welfare and recreation	138,533	-	138,533		
Capital outlay	1,287,699	-	1,287,699		
Operating expenses	<u>-</u>	<u>-</u>	<u>-</u>		
 Total expenditures	 <u>2,762,787</u>	 <u>756,619</u>	 <u>3,519,406</u>	 <u>5,852,120</u>	 <u>(2,332,714)</u>
 Excess (deficiency) of revenues over (under) expenditures	 (613,540)	 (181,226)	 (794,766)	 <u>-</u>	 <u>(794,766)</u>
 Fund balances, beginning of year	 <u>3,133,916</u>	 <u>16,583</u>	 <u>3,150,499</u>		
 Fund balances, end of year	 <u>\$ 2,520,376</u>	 <u>\$ (164,643)</u>	 <u>\$ 2,355,733</u>		

The accompanying notes are an integral part of these statements.

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of
Governmental Funds To Statement of Activities
For the Year Ended June 30, 2004**

Amounts reported for governmental activities in statement of activities are different because:

Net change in fund balances - total governmental funds	\$ (794,766)
Contributed assets from developments	23,546,799
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which exceeded depreciation exceeds capital outlays in the current period.	<u>(1,480,796)</u>
Changes in net assets of governmental activities	<u>\$21,271,237</u>

The accompanying notes are an integral part of these statements.

Enterprise Revenue Fund
Statement of Net Assets
June 30, 2004

Current Assets:

Cash and cash equivalents	\$ 946,677
Investments	303,610
Accounts receivable	<u>17,658</u>
Total current assets	<u>1,267,945</u>

Property, plant and equipment

Land	80,682
Sewer plant and improvements	<u>5,927,264</u>
Total cost	6,007,946
Less accumulated depreciation	<u>775,395</u>
Total property, plant and equipment - net	<u>5,232,551</u>

Total assets	<u><u>\$ 6,500,496</u></u>
--------------	----------------------------

Current liabilities

Accounts payable	\$ 382
Due to general fund	<u>10,491</u>
Total current liabilities	<u>10,873</u>

Net Assets:

Contributed capital	4,095,973
Unrestricted	<u>2,393,650</u>
Total fund equity	<u>6,489,623</u>
Total liabilities and net assets	<u><u>\$ 6,500,496</u></u>

The accompanying notes are an integral part of these statements.

**Enterprise Fund - Statement of Revenues, Expenses And Changes in Net Assets
For The Fiscal Year Ended June 30, 2004**

Revenues:	
Sewer user fees	\$ 220,164
Other fees	<u>2,400</u>
Total revenue	<u>222,564</u>
Operating Expenses:	
Wages	92,756
Overtime wages	5,551
Payroll taxes	7,152
Insurance	34,372
Retirement	3,880
Uniforms	1,018
Communications	
Supplies	3,075
Electric	54,927
Telephone	601
Legal	7,009
Other professional services	12,261
Repairs and maintenance	74,039
Contracted services	6,312
Collection fees	3,338
Chemicals/labs	4,693
Repair parts	23,574
Improvements-renewal & replacement	6,545
Other operating expenses	10,420
Depreciation	<u>185,278</u>
Total operating expenses	<u>536,801</u>
Net income (loss) from operations	<u>(314,237)</u>

Continued

**Enterprise Fund - Statement of Revenues, Expenses And Changes in Net Assets
For The Fiscal Year Ended June 30, 2004**

Other Non-Operating Revenues and Expense:	
Developer fees	\$ 221,850
Connection fees	105,500
Renewal and replacement fees	105,500
Sewer pump fee	15,000
Treatment fee	1,800
Transport fee	100,672
Sewer plant expansion	31,800
Capital contribution	489,080
Interest	<u>8,916</u>
Total non-operating revenues	<u>1,080,118</u>
Net income (loss)	765,881
Net assets, beginning of year	<u>1,627,769</u>
Net Assets, end of year	<u>\$ 2,393,650</u>

The accompanying notes are an integral part of these statements.

**Enterprise Fund - Statement of Cash Flows
For The Fiscal Year Ended June 30, 2003**

Cash Flows From Operating Activities:

Net Income	\$ 765,881
Adjustments to reconcile net income to cash provided by operating activities:	
Depreciation	185,278
Accounts receivable	(938)
Accounts payable	2
Due to other funds	<u>(9,473)</u>
 Total cash flows provided by operating activities	 <u>940,750</u>

Cash Flows From Investing Activities:

Capital assets contributed	(3,236,557)
Contributed capital	<u>2,744,803</u>
 Total cash flows used by financing activities	 <u>(491,754)</u>
 Cash and cash equivalents, beginning of year	 <u>801,291</u>
 Cash and cash equivalents, end of year	 <u>\$ 1,250,287</u>

The accompanying notes are an integral part of these statements.

Budgetary Accounting and Control

The revenues and expenditures accounted for in all governmental fund types are controlled by a formal integrated budgetary accounting system. The Mayor and Board of Commissioners approve annually the budget for these funds. Budgetary control is maintained by the City Manager and expenditures may not exceed funds budgeted which constitute the spending limit. The City manager may amend the budget with the approval of the Mayor and Board of Commissioners. The same basis of accounting is used to reflect actual revenue and expenditures recognized on a generally accepted accounting principles accepted in the United States of America basis.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Summary of significant accounting policies

A. Reporting entity

The City of Lakeland, Tennessee (the City) is a municipal corporation governed by an elected mayor and a four-member board of commissioners. As required by accounting principles generally accepted in the United States of America, the financial statements present the City, its component units and entities for which the City is considered to be financially accountable. However, the City has no component units.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and a statement of activities and changes in net assets) report information on all of the nonfiduciary activities of the primary government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt services expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Sales taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by government.

The government reports the following major governmental funds:

(1) General Fund

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

a) Special Revenue Fund

Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust or major projects) that are legally restricted to expenditures for specific purposes. The following g comprise the special revenue fund:

The **State Street Aid Fund** accounts for the receipts and expenditures of the City's solid waste removal services.

The **Solid Waste Fund** accounts for the receipts and expenditures of the City's solid waste removal services.

(2) Proprietary Fund Types

The *sewer fund* accounts for the organizations and activities of the City that are similar to those often found in private enterprises. The fund operates the sewage treatment plant, sewage pumping stations and collection systems.

Notes to Financial Statements
June 30, 2004

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the governmental-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operating. The principal operating revenues of the sewer fund enterprise fund and the special revenue funds are charges to customers for sales and services. The sewer fund also recognized as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund and special revenue fund include the cost of sales and services, administration expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities and net assets or equity

1. Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with origin maturities of three months or less from the date of acquisition.

State statutes authorize the government and the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the State Treasurer's Investment Pool.

Investments for the government, as well as for its component units, are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal are referred to as either "due to/from other funds or advances to/from other funds.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade receivables and sales tax receivables, including those for the sewer fund, are shown net of an allowance for uncollectibles. (An allowance was not necessary because 100% of receivables were collected.)

3. Capital assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Capital assets, other than infrastructure assets, are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful in excess of two years. The government reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for the construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the government chose to include all such items regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	40
Public domain infrastructure	30
System infrastructure	30
Vehicles	5
Office equipment	5
Computer equipment	5

4. Compensated absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee's resignations and retirements.

5. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE B – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

1. Explanation of certain differences between the governmental fund balance and the government-wide statement of net assets

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

2. Explanation of certain differences between the governmental fund statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures and changes in fund balance includes reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.”

NOTE C – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All appropriations lapse at fiscal year end.

The revenues and expenditures accounted for in all governmental fund types are controlled by a formal integrated budgetary accounting system. The Mayor and

Board of Commissioners approve annually the budgets for these funds. Budgetary control is maintained at the government wide level by total expenditures and expenditures may not exceed funds budgeted, which constitute the legal spending limit. Management may not amend the budget without approval of the governing body.

Total expenditures exceeded those budgeted due to the purchase of land by the City. The board approved the use of reserve funds to pay for the purchase.

NOTE D – DETAILED NOTES ON ALL FUNDS

1. Deposits and investments

At year-end the carrying amount of the City’s deposits was \$1,499,306 and the bank balance was \$1,505,067. Of the bank balance \$100,000 was covered by the federal depository insurance and the remaining \$1,405,067 covered by collateral held by the City’s agent in the City’s name.

The City’s investments at June 30, 2004, consisted of certificates of deposits in the general fund and investment for the deferred compensation plan as follows:

	<u>Carrying Amount</u>	<u>Market Value</u>
Certificate of deposit Aetna Life Insurance Company - various mutual finds	\$ 2,148,679	\$ 2,148,679
	<u>414,716</u>	<u>414,716</u>
Total	<u>\$ 2,563,395</u>	<u>\$ 2,563,395</u>

2. Receivables

Amounts due from other governments represent the normal amounts due from state and county governments for shared revenues and tax allocations.

Notes to Financial Statements
June 30, 2004

3. Capital assets

Capital asset activity for the year ended June 30, 2004 was as follows:

Primary Government	Beginning	Contributed		Ending
	Balance	Assets/ Purchases	Disposals	Balance
Capital assets, not being depreciated:				
Land	\$ 3,985,448	\$ 916,971	\$ -	\$ 4,902,419
Construction in progress	-	124,816	-	124,816
Total capital assets, not being depreciated	<u>3,985,448</u>	<u>1,041,787</u>	-	<u>5,027,235</u>
Capital assets, being depreciated:				
Buildings	960,323	29,808	-	990,131
Improvements other than buildings				
Machinery and equipment	684,481	70,104	-	754,585
Infrastructure	<u>56,024,704</u>	<u>5,651,074</u>	-	<u>61,675,778</u>
Total capital assets being depreciated	<u>\$61,654,956</u>	<u>\$ 6,792,773</u>	<u>\$ -</u>	<u>\$68,447,729</u>
	Beginning	Increases	Disposals	Ending
	Balance	Increases	Disposals	Balance
Less accumulated depreciation for:				
Buildings	\$ 102,746	\$ 25,067	\$ -	\$ 127,813
Improvements other than buildings				
Machinery and equipment	451,978	71,857	-	523,835
Infrastructure	<u>8,192,654</u>	<u>2,969,812</u>	-	<u>11,162,466</u>
Total accumulated depreciation	<u>8,747,378</u>	<u>\$ 3,066,736</u>	<u>\$ -</u>	<u>11,814,114</u>
Governmental activities capital assets, net	<u>\$52,907,578</u>			<u>\$56,633,615</u>
Sewer Plant				
Plant	\$ 6,007,946	\$ -	\$ -	\$ 6,007,946
Accumulated depreciation	<u>590,117</u>	<u>185,278</u>	-	<u>775,395</u>
Sewer plant, net	<u>\$ 5,417,829</u>	<u>\$ (185,278)</u>	<u>\$ -</u>	<u>\$ 5,232,551</u>

4. Interfund receivables, payables and transfers

The composition of interfund balances as of June 30, 2004 was general fund receivable from sewer fund of \$10,489 with corresponding payable from sewer fund to general fund.

NOTE E – DEFERRED COMPENSATION PLAN

The City of Lakeland offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. For employees who elect to participate, the City contributes 8.5% of pay for salaried employees and 7.5% of pay for hourly employees. Employees contribute a minimum of 2% of pay up to a combined total contribution of \$7,500. The deferred compensation is not available to employees until termination, retirement, death or certain unforeseeable emergencies. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the government, subject only to the claims of the government's general creditors. Participants' rights under the plan are equal to those of general creditors of the City in an amount equal to the fair market value of the deferred account for each participant.

It is the opinion of management that the City has no liability for losses under the plan, but does have the duty of due care that would be required of an ordinary prudent investor. The City believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

The plan's trustee manages investments.

NOTE F – LITIGATION

The City of Lakeland is currently involved in several legal proceedings. Legal counsel for the City does not anticipate any liability in these proceedings.

NOTE G – CHANGES IN LONG-TERM DEBT

The only obligation of The City at June 30, 2003 is \$13,572 of accrued vacation.

Due to the nature of the obligation for accrued vacation, annual requirements to amortize such obligations are not deferrable and have not been presented.

NOTE H – RISK MANAGEMENT

The City of Lakeland, Tennessee, is exposed to various risks of losses related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City decided it was more economically feasible to join a public entity risk pool as opposed to purchasing commercial insurance for general liability, auto liability, errors and omissions and auto physical damage coverage. The City joined the Tennessee Municipal League Risk Pool (Pool), which is a public entity risk pool established in 1979 by the Tennessee Municipal League. The City pays annual premiums to the Pool for its general liability, auto liability, real and personal property damage, workmen's compensation and errors and omissions policies. The Pool provides the specified coverage and pays all claims from its member premiums charged or through its reinsurance policies. The City's premiums are calculated based on its prior claims history. It is the policy of the City to purchase commercial insurance for the risks of employee dishonesty. Settled claims have not exceeded this commercial coverage or the coverage provided by the Pool in any of the past three years.

General Fund Balance Sheet
June 30, 2003

Assets:

Cash and cash equivalents	\$ 552,629
Investments	1,845,069
Receivables	
Intergovernmental	221,376
Due from other funds	<u>175,104</u>
Total assets	<u>\$ 2,794,178</u>

Current Liabilities -

Accounts payable	121,132
Due to/from other funds	

Other Liabilities-

Refundable deposits	<u>152,670</u>
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Total liabilities	<u>273,802</u>
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Fund equity:

Unreserved, designated for parks	22,143
Unreserved, undesignated	<u>2,498,233</u>

Total fund equity	<u>2,520,376</u>
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Total liabilities and fund equity	<u>\$ 2,794,178</u>
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The accompanying notes are an integral part of these statements.

**General Fund Statement of Revenues, Expenditures and
Changes in Fund Balance
For The Fiscal Year Ended June 30, 2004**

	<u>Vari-</u> <u>Favor</u> <u>(Unfavorable)</u>
Revenues:	
Local Taxes:	
Wholesale beer tax	\$ 47,263
Business taxes	109,471
Cable TV franchise tax	<u>61,609</u>
Total local taxes	<u>218,343</u>
Licenses and Permits:	
Building permits	92,665
Inspection fees	26,750
Other permits	<u>151,607</u>
Total licenses and permits	<u>271,022</u>
Intergovernmental revenue:	
Local option sales tax	879,369
TVA payments in lieu of taxes	49,292
State grants	30,498
State sales tax	437,455
State income tax	20,208
State beer tax	3,704
State street and transportation	<u>16,795</u>
Total intergovernmental	<u>1,437,321</u>
Fees for Services:	
Street improvements	32,822
Park - rental fees	850
Developer fees for park land	600
Recreation fees	<u>54,612</u>
Total fees for service	<u>88,884</u>
Other:	
Interest earned	45,298
Traffic study	7,000
Other	<u>81,379</u>
Total other	<u>133,677</u>
Total revenue	<u>\$ 2,149,247</u>

Continued

**General Fund Statement of Revenues, Expenditures and
Changes in Fund Balance
For The Fiscal Year Ended June 30, 2004**

Expenditures:

General Government:

Salaries - permanent employees	\$ 384,256
Wages - permanent employees	150,243.00
Wages - overtime	7,649.00
Wages - temporary	13,964.00
Board of commissioners	17,841.00
Payroll taxes	41,748.00
Hospital and health insurance	94,854.00
Retirement	48,428.00
Employee education and training	11,116.00
Uniform	4,026.00
Printing and duplicating	6,384.00
Publicity, subscriptions and dues	14,289.00
Electric	7,770.00
Water	477.00
Gas	4,062.00
Telephone	19,444.00
Legal services	63,921.00
Accounting and auditing	23,263.00
Architectual and auditing	25,632.00
Data processing services	5,071.00
Other professional services	29,157.00
Supplies	32,374.00
Insurance	60,621.00
Gross receipts payback	38,988.00
Drainage study	-
Repair and maintenance services	1,006.00
Travel	18,974.00
Contracted services	23,445.00
Other	12,513.00
Total general government	<u>\$ 1,161,516</u>

Continued

**General Fund Statement of Revenues, Expenditures and
Changes in Fund Balance
For The Fiscal Year Ended June 30, 2004**

Expenditures: (Continued)

Public Safety:

Ambulance Services:

Contractual servies	\$ 34,823
Tennessee one call	<u>3,573</u>
Total public safety	<u>38,396</u>

Public Works:

Highway and Streets:

Wages	62,623
Overtime wages	3,452
Payroll taxes	4,926
Uniforms	(72)
Electric	10,650
Other professional servies	-
Repairs and maintenance - other	-
Contracted services	14,550
Sundry	85
Office supplies	34
Gas, oil and fuel	33,269
Repair parts	2,511
Tools	588
Sign parts and supplies	2,605
Gravel and sand	868
Machinery and equipment rental	84
Chemical, lab and medical	<u>470</u>
Total public works	<u>\$ 136,643</u>

Continued

**General Fund Statement of Revenues, Expenditures and
Changes in Fund Balance
For The Fiscal Year Ended June 30, 2004**

Expenditures: (Continued)

Health, culture, welfare and recreation

Salaries	\$ 20,667
Wages	8,890
Overtime wages	201
Payroll taxes	2,269
Electric	3,338
Water	1,059
Gas	2,153
Repair and maintenance - building	4,636
Repair and maintenance - other	1,902
Other contractual services	20,860
Sundry	2,126
Office supplies	299
Chemical, laboratory, medical	1,452
Painting and plumbing supplies	1,884
Repair parts	237
Gravel and sand	1,351
Sign parts	1,075
Other professional services	12,699
Park activities	<u>51,435</u>
Total parks and recreation center	<u>138,533</u>

Capital Outlay:

Right of way	916,972
Road improvements	110,000
Drainage study	36,000
Parks and recreation facilities	29,808
Vehicle	37,616
Computer upgrades	32,488
Construction in progress	<u>124,815</u>
Total capital outlay	<u>1,287,699</u>

Total expenditures	<u>2,762,787</u>
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Excess (deficiency) of revenues over (under) expenditures	<u>\$ (613,540)</u>
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Continued

**General Fund Statement of Revenues, Expenditures and
Changes in Fund Balance
For The Fiscal Year Ended June 30, 2004**

Excess (deficiency) of revenues over (under) expenditures	\$ (613,540)
Fund balance, beginning of year	<u>3,133,916</u>
Fund balance, end of year	<u>\$ 2,520,376</u>

The accompanying notes are an integral part of these statements.

Special Revenue Fund Balance Sheet
June 30, 2004

Assets -	
Due from general fund	\$ <u> -</u>
 Total assets	 \$ <u> -</u>
 Liabilities:	
Due to general fund	164,643
Fund equity - reserved for street aid	(208,104)
Fund equity - unreserved	\$ <u> 43,461</u>
 Total liabilities and fund equity	 \$ <u> -</u>

The accompanying notes are an integral part of these statements.

**Special Revenue Fund Combining Statement of Revenues, Expenditures
and Changes in Fund Balance
June 30, 2004**

	<u>State Street Aid</u>	<u>Solid Waste</u>	<u>Total</u>
Revenues:			
Charges for services:			
State revenues	\$ 209,378	\$ -	\$ 209,378
Refuse collection and disposal	<u>-</u>	<u>366,015</u>	<u>366,015</u>
Total revenue	<u>209,378</u>	<u>366,015</u>	<u>575,393</u>
Expenditures:			
Current:			
Public works:			
Roads	444,236	-	444,236
Garbage collection and disposal collection fees	<u>-</u>	<u>312,383</u>	<u>312,383</u>
Total expenditures	<u>444,236</u>	<u>312,383</u>	<u>756,619</u>
Excess (deficiency) of revenues over (under) expenditures	(234,858)	53,632	(181,226)
Fund balance, beginning of year	<u>26,754</u>	<u>(10,171)</u>	<u>16,583</u>
Fund balance, end of year	<u>\$ (208,104)</u>	<u>\$ 43,461</u>	<u>\$ (164,643)</u>

The accompanying notes are an integral part of these statements.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Honorable Scott Carmichael, Mayor
And the Board of Commissioners
City of Lakeland, Tennessee

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lakeland, Tennessee (the "City"), as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 2, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The result of our tests disclosed no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Mayor and Board of Commissioners, Management, the State of Tennessee Comptroller's Office-Division of Municipal Audit, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Drauer, Holloman & Associates

Memphis, Tennessee

June 30, 2005

STATISTICAL SECTION

**Schedule of Changes In Capital Assets
By Function and Activity**

June 30, 2004

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Additions Per GASB 34</u>	<u>Deletions</u>	<u>Ending Balance</u>
General Government- General administration	\$1,116,864	\$ 1,111,891	\$ -	\$ -	\$ 2,228,755
Public Works- Streets and highways	650,289	444,241	63,609,889	-	64,704,419
Health, Welfare, Culture And Recreation Parks	<u>1,484,747</u>	<u>29,808</u>	<u>-</u>	<u>-</u>	<u>1,514,555</u>
Total capital assets	<u>\$3,251,900</u>	<u>\$ 1,585,940</u>	<u>\$ 63,609,889</u>	<u>\$ -</u>	<u>\$68,447,729</u>

The accompanying notes are an integral part of these statements.

Schedule of Capital Assets-
 By Function and Activity
 June 30, 2004

	<u>Land</u>	<u>Buildings</u>	<u>Infra- structure</u>	<u>Improve- ments Other Than Building</u>	<u>Machinery And Equipment</u>	<u>Total</u>
General Government- General administration	\$ 979,579	\$ 718,784	\$ -	\$ -	\$ 530,392	\$ 2,228,755
Public Works- Streets and highways	3,028,641	-	61,675,778			64,704,419
Health, Welfare, Culture And Recreation						
Parks	<u>894,200</u>	<u>241,539</u>	<u>-</u>	<u>142,056</u>	<u>236,760</u>	<u>1,514,555</u>
Total general fund fixed assets	<u>\$4,902,420</u>	<u>\$960,323</u>	<u>\$61,675,778</u>	<u>\$142,056</u>	<u>\$767,152</u>	<u>\$68,447,729</u>

The accompanying notes are an integral part of these statements.

Schedule of Insurance Coverage
June 30, 2004

The Risk Management Pool TMP-3192-04	Property Insurance	100% Replacement \$2,587,068 Buildings and Personal Property, \$22,492 Electronic Data Processing Equipment, \$112,061 Mobile Equipment, \$2,699,129 Boiler, Machinery, Automatic Coverages \$1,000 Deductible for all coverages
	Crime Coverages	\$150,000 Employee Dishonesty, \$150,000 Forgery or Alteration, \$100,000 Theft Disappearance or Destruction, \$100,000 Computer Fraud, \$500 Deductible Employee Dishonesty, \$1,000 Deductible Forgery or Alteration
The Risk Management Pool TMP-067-04	General Liability and Personal Injury	\$130,000/\$500,000 Bodily Injury Tort Liability, \$50,000 Property Damage Tort Liability, \$50,000 Fire Damage, \$50,000 Each, Impounded Property, \$1,000 per person, \$10,000 per accident Medical Payment, \$1,000,000 Each, Other Loss \$50,000 non-monetary defense loss
	Automobile Liability	\$130,000/\$350,000 Bodily Injury; \$50,000 Property Damage; \$1,000,000 Per Occurrence; \$1,000 per person, \$10,000 Per Accident Medical Payments
	Uninsured Motorist	\$60,000 Per Occurrence Bodily Injury; \$50,000 Property Damage
	Comprehensive	\$500 Deductible Per Occurrence
	Collision	\$500 Deductible Per Occurrence
	Errors or Omissions	\$1,000,000 Per Occurrence, \$1,000 Deductible
The Risk Management Pool TWC-0394-02	Workman's Compensation	\$130,000 Bodily injury each Accident; \$350,000 Bodily Injury by Policy Limit; \$130,000 Each Employee by Disease
American States Insurance Company EXP972377	Recorder Bond	\$20,000
American States Insurance Company 5996088	City Manager - Bond	\$20,000
American States Insurance Company EX-977661	Mayor - Bond	\$10,000
American States Insurance Company 5996090	City Clerk/Deputy City Recorder - Bond	\$10,000
American States Insurance Company E981436	Bookkeeper - Bond	\$10,000